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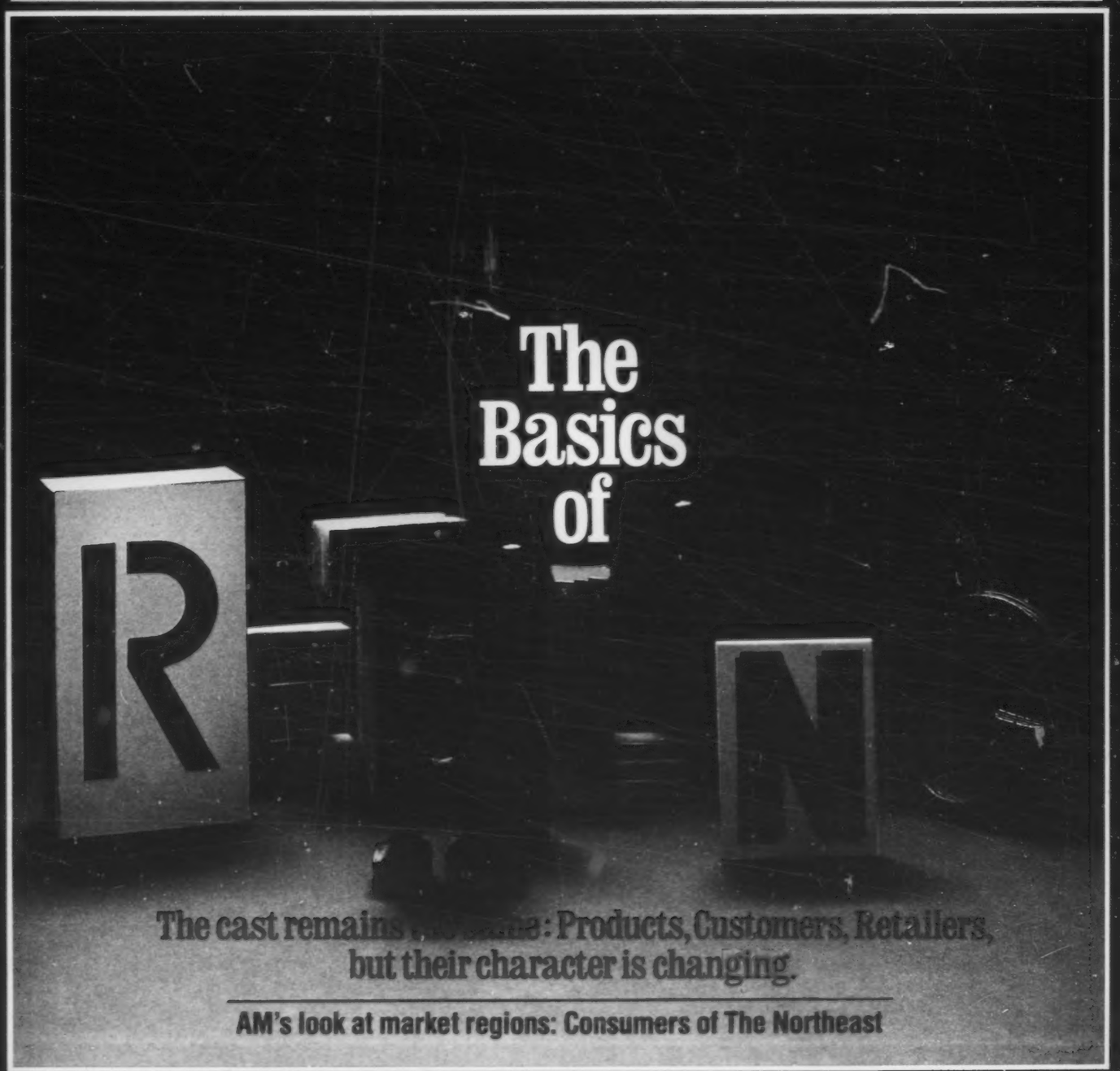
AUTOMOTIVE MARKETING

The Marketing/Business Magazine For The Retail Aftermarket

JANUARY 1990



The Basics of

The cast remains [illegible]e: Products, Customers, Retailers, but their character is changing.

AM's look at market regions: Consumers of The Northeast

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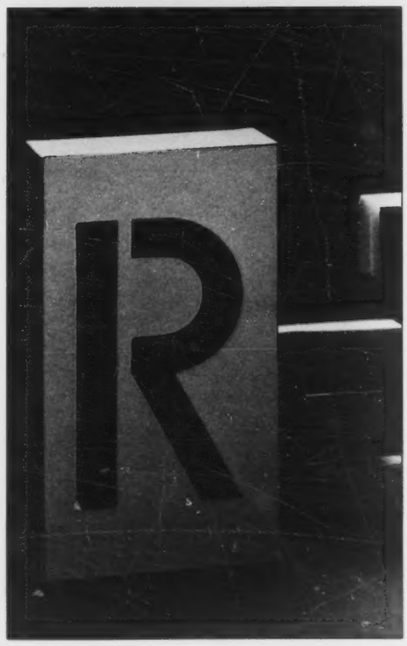
AUTOMOTIVE MARKETING

January Issue/Volume 19, Number 1



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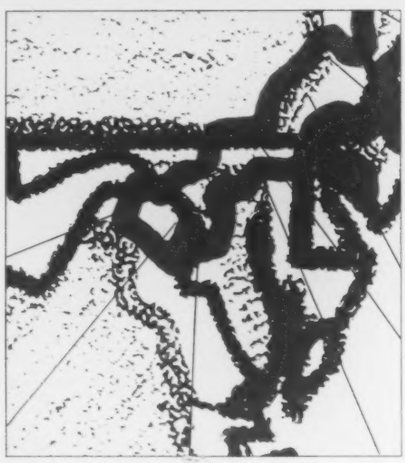
The Basics Of Retailing 18
Retailing's three basics—products, consumers, and employees—are in the midst of turbulent change. What these changes consist of, and how retailers meet them, is important to the retail aftermarket's future.

Regional Markets: Megalopolis North 24
In this fifth part of a series on consumers in different regions, we look at Megaloplis North. What makes the automotive store customers who live here different?



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EDITORIAL STAFF
FAX (215) 964-4273

Rosemarie Kilchin,
Associate Publisher/Editor-in-Chief
(215) 964-4395

Gail Krueger-Nicholson,
Managing Editor

P. Royall Katcher,
Business Editor

John Wirebach,
Senior News & Feature Editor

Bonnie Lynne Shannon,
Editorial Assistant

Lorraine Evans,
Editorial Intern

Jake J. Smith,
Creative Director

Mike Trinsey,
Art Director

Sarah Frankson, Group Publisher
(215) 964-4390

Chilton Officers:
Gary Ingersoll, President; Senior Vice President Publications, Richard D. Bay; Senior Vice President Operations/Administration, Donald W. Chestnut; Senior Vice President Books/Research, Ronald A. Hoxter; Vice President Finance, Christopher M. Savine; Vice President Automotive Books, John P. Kushnerick

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MARKET LINE

Antifreeze: Prices Down, Supplies Up, Back To Normal in 1990.

"What a difference a year makes," Dave Lundstedt, market manager for antifreeze/coolant at First Brands (Prestone brand), Danbury, CT, said.

"This time last year (December) we could have sold twice as much antifreeze if we had any glycol on hand to make antifreeze. We were completely out of stock. Everything we made was shipped. We had a pile of orders waiting. Now we have stocks of inventory."

Last year (when antifreeze people talk about last year, they mean the 1988-89 buying season) was a winter the four major suppliers of branded antifreeze would like to forget.

Early in 1988, the supply of ethylene glycol, the chief ingredient of antifreeze, started to dry up. As a result, the per pound price for glycol (usually about 18-20-cents) more than doubled. Since there are about nine pounds of glycol in one gallon of antifreeze/coolant, consumer prices also rose dramatically.

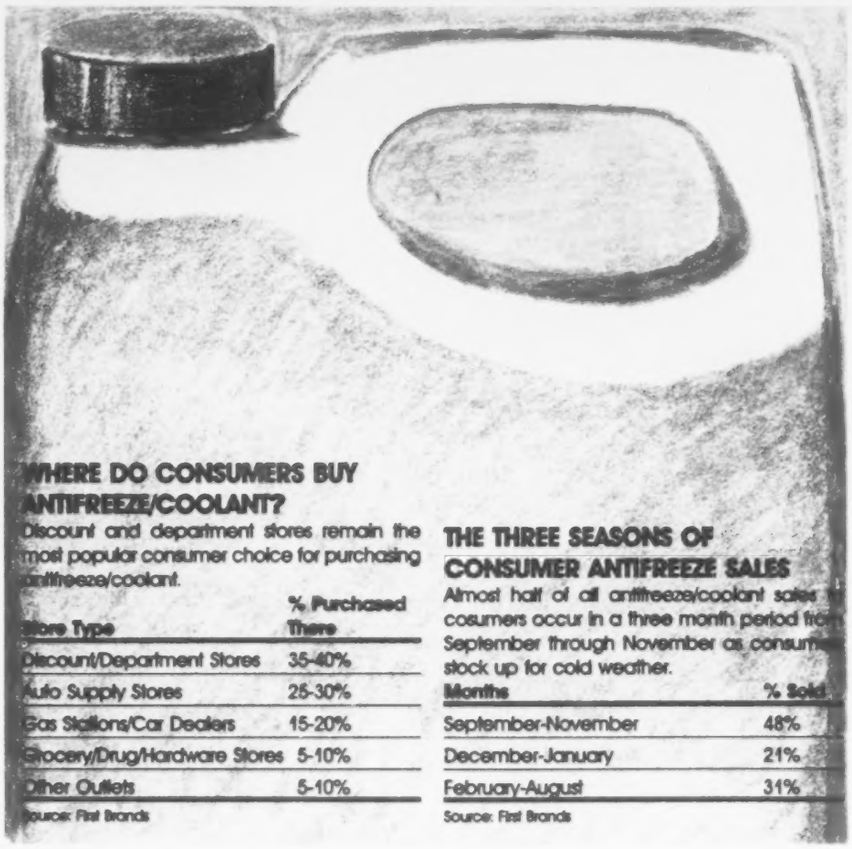
About half of all antifreeze is sold to consumers from September through November. Lundstedt noted that trade sales in July and August of 1988 (when retailers stock up for the buying season) were almost double those of July and August of 1987. Retailers began panic buying to beat the expected price increases. "You also had a lot of small retailers going into K marts and Wal-marts and buying 10-20 cases just to have some antifreeze on the floor," Lundstedt said.

As a result of over buying, retailers accumulated large inventories of antifreeze. And, while retailers increased their buying in 1988-89, consumers did not. And so, the winter of 1988-89 is having a severe impact on the winter of 1989-90. Lundstedt noted that consumer buying in September and October was down considerably, but November sales looked good.

Executives of the three other major antifreeze/coolant suppliers agreed with Lundstedt's assessment. At Texaco, Mike Milenz, manager for national accounts marketing at Texaco Lubricants, Houston, said, "I think total sales for the 1990 winter season will be down significantly. As much as 20-45% off. The reasons? Everybody scrambled to get product last year and paid a pretty high price. Now there's a lot of stuff sitting out there. Nobody wants to buy more. They're waiting for the price to go down. I don't think anybody realized just how much consumer resistance there'd be to $9-$10 antifreeze."

Mike Barcum, senior vice president at Old World Automotive Products (Peak Brand), Des Plaines, IL, said, "The market took a dive this year. Retailers are managing their stocks closer. There's a lot of carry-over inventory from 1988 and they're not making the same mistake this year. The retail volume is way down from the year prior. We did a spring survey that showed there is a lot of inventory sitting in consumers' garages. There was a shortage and the media played it up as a scare. So a good percentage ran out and bought more than they needed. Then too, there was good weather last year with no real deep, hard freeze. But, we do see better sales right now (November and December)."

Tom Meinhert, business manager for



WHERE DO CONSUMERS BUY ANTIFREEZE/COOLANT?

Discount and department stores remain the most popular consumer choice for purchasing antifreeze/coolant.

Store Type	% Purchased There
Discount/Department Stores	35-40%
Auto Supply Stores	25-30%
Gas Stations/Car Dealers	15-20%
Grocery/Drug/Hardware Stores	5-10%
Other Outlets	5-10%

Source: First Brands

THE THREE SEASONS OF CONSUMER ANTIFREEZE SALES

Almost half of all antifreeze/coolant sales to consumers occur in a three month period from September through November as consumers stock up for cold weather.

Months	% Sold
September-November	48%
December-January	21%
February-August	31%

Source: First Brands

BASF (Zerex brand), Parsippany, NJ, said, "A lot of retailers are carrying hold-over inventory which diminished the early buy peak season. The market's a little soft, but nothing dramatic. For 1990, we see no worries about a glycol shortage. Plenty of availability but no over supply."

Prestone's Lundstedt, who's head of the Chemical Specialty Manufacturers Association committee that charts antifreeze/coolant sales, noted that 216 million gallons were sold in 1988, but that he expects a decline in the 1989 survey underway now.

Prices Down, Rebates Back

Lundstedt noted that the real trade loss in industry antifreeze/coolant sales came not from branded product, but from bulk sales to contract packagers and regional blenders for private label sales (usually more than 40 million gallons).

"That was missing last year. Zerex, Peak, and Texaco all increased their market shares last year because private labels just about disappeared. Private label, as a whole, had the number two market share. Back in 1987, most retailers stocked Prestone and a private label. Last year, they replaced private labels with Zerex, Peak, and Texaco.

" Currently, we're not doing any private label. Two years ago, I could reel off 20 accounts. It's tough to plan on private labels. Not many months ago the industry expected a tight market. But now there's plenty of glycol. But it's too late for this year. It will be interesting to see if private label sales return in 1990. It could increase and come back for 1990-91," Lundstedt said.

So because of the unusual circumstances of 1988-89, perhaps this may be a bad year to evaluate the market shares of antifreeze/coolant makers. Lundstedt noted that the A.C. Nielsen, a Northbrook, IL, market research firm, 1989 rankings still showed Prestone at about 60% of the branded market. Although none of the other majors doubted that First Brands still held a wide lead in branded sales over its nearest competitors, they suggested that its total market share was lower. As BASF's Meinhert commented, "Prestone is a formidable competitor. They have the strength of distribution, the marketing and the name in the market."

Perhaps it's more accurate to say that Prestone remains the only brand that can command a premium price. Once First Brands sets a price on Prestone, the other three majors come in 60-90-cents under it. In previous years, private labels made up the lowest price point, below the major brands. A typical early fall trade price list would be $6.99/$6.25/$5.99. However, because of the dearth of private labels, the 1989-90 prices have seen some of the majors go under these prices.

Texaco recently has been quoting prices under $5. Texaco's Milenz noted that 1989-1990 has been an "interesting, educational year. The sky's the limit on pricing. Our strategy is to broaden our base and keep our market share. Sure, we're anxious to move inventories. For one thing, the product can deteriorate in storage. It has a limited shelf life. And, we have money tied up in inventory. We package a lot and rather than carry it over, I'd rather drop the price and move it out. We have designs on growing the market. Antifreeze fits in our overall scheme of fuels, lubricants, and antifreeze. We have excellent technology and the leading position in factory fill. The OEM is the only business that held up last year. Texaco will continue to offer the most competitive price. And, we have a few surprises for the competition in 1990."

Meinhert commented that Zerex "volume is up 50% over a year ago. That translates to national distribution in K mart, Wal-Mart, Target and auto retailers like Pep Boys and AutoZone. All of these represent new opportunities. So we feel 1990 will be a terrific year for the Zerex brand. We intend to resist pricing pressures. We want to put together a total marketing program. You can't do that with pricing. The price consumer is not my target consumer."

Likewise, Old World does not want to get into pricing wars. "It's difficult to say where we see ourselves in 1989," Barcum said. "In 1988, we were definitely number two, pricing higher than Zerex and Texaco. Some of the trade will buy Prestone, then buy the lowest price brand as a second label. But if they're looking for promotion, they'll buy Peak. That's where we can hook up with a chain positioned not to sell on price. We don't sell national discounters like K mart and Wal-Mart. We're a little concerned at what they do. They football the price around. For a lot of people, that's good strategy. But it doesn't fit our strategy: build traffic at a profit.

"We've really challenged Prestone in consumer and trade advertising. Previously, there was no real alternative. But now we have Peak spokesmen like Wayne Gretsky, Mike Ditka, and Kyle Petty. High impact commercials. We definitely feel we're making progress. In chains that promote Peak, we have the majority of business."

One thing that remains in the antifreeze/coolant business is rebates. Although rebating slowed down last year, all four majors will be rebating for the first half of 1990.

In fact, Texaco never stopped rebating at $3.50/gallon and $1.50/gallon. "Don't get me wrong, we hate them," Milenz said, "but rebates move the merchandise. We felt when the competition dropped rebates, we would continue."

Lundstedt said rebates will continue at Prestone for the first six months of 1990 at $3/gallon and $1.50/gallon. "Rebates are back. Manufacturers have high inventories and this is an effort to move them out. So this is a rebate to clear the decks."

Old World's Barcum noted, "Rebates become less of a factor as price falls. If retail prices get down to $4 again, rebates will be much less a factor than they are at around $8 (the current consumer price). We need to give consumers a reason to buy now." ■

APAA Calls For Merger

At its December meeting in Nashville, TN, Board of Governors of the Automotive Parts & Accessories (APAA) called for a combined side-by-side APAA/Big 'I' trade show. The Big 'I' Show is sponsored by the Automotive Service Industry Association and the Motor Equipment Manufacturers Association. Target date for the dual show is October 1991.■

Cardis Reorganizes: Smaller & Wiser

Despite a last-ditch attempt by the Dresdner Bank to prevent it, the Cardis Corp., Cerritos, CA, is out of bankruptcy after almost 18 months of operating under Chapter 11 protection. Cardis is the largest WD in California and also owns the Tuneup Masters specialty repair chain.

After failing to reorganize successfully in spring 1989, the second Cardis reorganization plan was approved by Federal Bankruptcy Court on November 27. The first plan failed because Cardis could not sell its Tuneup Masters subsidiary, a key provision of the plan. The second plan, however, was designed not to require a sale of Tuneup Masters.

The only creditor to mount serious opposition to the second Cardis reorganization plan was the Dresdner Bank, which

million for the warehouse operation and $53.9 million for Tuneup Masters. The consolidated statement shows sales of $148 million and a net loss for the year of $24.1 million.

Walker told us that the Cardis reorganization plan calls for about $89 million in sales for the first full year of operation and close to $100 million the second year. The plan also calls for substantial payments to key debtors Security Pacific National Bank ($7 million immediately, and $29 million over seven years) and suppliers represented by the Motor Equipment manufacturers Association (MEMA) which receive $3 million in cash, $4 million in inventory and about $8 million over six years. Other creditors received stock in the new Cardis.

Walker, who came aboard in April 1989, after consulting for Security Pacific on the Cardis bankruptcy, said, "I was close enough to the details, and I had a vision the company could be successful." The keys, Walker added, were getting a decent gross margin and increasing productivity. "People expand to meet the space provided. We had 1,607 employees when we filed. Today, we have about 600. Since April, we've taken almost $4 million costs out of Cardis in people, facilities, computer systems, management systems."

While cutting costs, Walker has also been working at cleaning up discounts and promotions to its almost 2,000 customers and making sure the company gets everything it's entitled to from its suppliers. "We're trying to get back to a normal working environment. We have to focus on the future," Walker said. ■

KAUFMAN ON THE MARKET

Winners & Losers In The 1990 Aftermarket

by Edward L. Kaufman, Contributing Editor

It's time for a look back and a look ahead. The year 1989 was disappointing for many aftermarket manufacturers, WDs, and retailers. Lindsey-Kaufman Co. estimates that total retail sales of aftermarket products and services reached $108 billion in 1989 versus $105 billion (our revised estimate) in 1988.

That's an increase of only 2.9% in current dollars (compared to the longer term growth rate of 5.5% per year). This means that for some participants, 1989 unit sales were actually lower than in 1988.

In 1989

Was the 1989 situation aberrational—possibly the result of two successive years of mild weather? We think so. The aging of the vehicle population, plus accumulated maintenance needs, should mean a return to faster growth in 1990. However, there is no denying that other factors will make for a very tough competitive environment in 1990 and all through the 1990s. These include:

- Changes in product design. A continuing movement to higher quality, longer lasting original equipment and replacement parts.
- Parts proliferation and greater inventory management problems.
- Consolidation of buying power and of advertising power.
- Continuing sales gains for foreign-make vehicles (plus the slowness of the independent aftermarket in learning how to serve the import car aftermarket).
- Intensifying competition for accessory and chemical sales.

The adjoining chart presents Lindsey-Kaufman Co.'s model of the composition of the 1989 market. Note that we believe that volume retailers accounted for nearly 25% of the total aftermarket and that traditional service dealers (car dealers, gas stations, garages) accounted, collectively, for 51%.

The traditional dealers, as a group, have been losing their share of the market for several years. For example, there has been a great attrition (which is continuing) in the numbers of full-service gas stations. As oil companies close down "marginal" outlets, many former gas station dealers are hanging on as independent garages. However, they miss the traffic (and credit card business) they obtained as gasoline retailers.

In addition, they are encountering tough competition from service specialists who have kept up with the technology and who are sophisticated about sourcing and merchandising.

Recently, car dealers have been crying the blues about declining sales and profits on new car sales. We expect that many weaker dealerships will close up or sell out to "megadealers" in 1990—continuing a long term trend. But, the survivors are tough competitors for accessory sales as well as automotive services. In fact, we believe that car dealers as a group have gained two to three points of the total aftermarket since 1986. (Note that car dealers account for about 30% of the automotive service market—the aftermarket less over-the-counter sales of parts, tires, batteries, accessories, and chemicals.)

In 1990

In 1990, we can expect to see winners and losers in all categories of aftermarket retail outlets. Thus, there will be shakeouts of highly leveraged auto chain stores and the marginal automotive operations of mass merchandisers will close. These will be offset by faster growth for well financed and committed volume retailers and specialty chains. Similarly, we'll see shakeouts of weaker car dealers, gas stations, garages, tire retailers, and jobber-retailers. Service specialists are no exception; those which lack the ability to keep up with the changing computerized systems will be in trouble. But in every category, we'll see some participants actually gaining in strength and poised for faster growth in the 1990s. ■

THE 1989 RETAIL AUTOMOTIVE AFTERMARKET (In Billions Of Dollars)

		VOLUME RETAILERS		TRADITIONAL SERVICE DEALERS			OTHER		
	Total	Auto Chain Stores	Mass Mdsrs.	Car Dealers	Car Stations	Gen. Garages	Service Specialists	Tire Dealers	Jobber Retailers
Services	$ 40.9	$ 0.5	$ 0.8	$13.1	$ 4.2	$12.7	$ 7.9	$1.2	$0.5
Repl. Parts	$ 35.5	$ 5.1	$ 3.6	$ 9.1	$ 4.0	$ 6.4	$ 3.0	$1.0	$3.3
Tires	$ 9.9	$ 1.5	$ 1.9	$ 0.1	$ 0.8	$ 0.1	$ 0.1	$5.4	—
Batteries	$ 3.3	$ 1.2	$ 1.0	$ 0.1	$ 0.3	$ 0.1	$ 0.1	$0.3	$0.2
Accessories	$ 9.5	$ 4.2	$ 2.6	$ 0.9	—	—	$ 0.5	$0.9	$0.3
Chemicals	$ 3.4	$ 1.2	$ 1.1	$ 0.2	$ 0.3	$ 0.3	$ 0.2	—	$0.1
Motor Oil	$ 5.5	$ 1.1	$ 0.9	$ 0.2	$ 2.1	$ 0.2	$ 0.6	$0.1	$0.3
TOTAL	$108.0	$14.8	$11.9	$23.7	$11.7	$19.8	$12.5	$8.9	$4.7
Percent	100.0	13.7	11.0	21.9	10.8	18.3	11.5	8.3	4.4

Source: Lindsey-Kaufman Co.

REGIONAL MARKETS: A LOOK AT MEGALOPOLIS NORTH

by **P. Royall Katcher,**
Business Editor

The area we call the "Megalopolis North" is the mixed land of steel and concrete running from north of New York city to south of Washington, DC. It's green bedroom suburbs where cars are vital. It's urban landscapes where public transportation—trains, subways, and buses—have replaced the private car to some extent.

Nowhere are the contrasts as evident as in the population statistics. New York's inner city borough of the Bronx, for example, is 47% White, 32% Black, and 39% Hispanic. However, the affluent New York county of Westchester is 85% White, 12% Black, and 5% Hispanic. (Hispanics can also be counted as Blacks.) Only 9% of the Bronx's residents graduated from college; 28% of Westchester's are college graduates. A full 25% more Westchester inhabitants are high school graduates than the Bronx's. And half of the households in the Bronx are headed by women without a husband present, compared to only 21% of those in Westchester.

Professional automotive service availability varies from area to area within Megalopolis North. A car owner might have to drive for the better part of an hour to get to a place to have his flat tire fixed in Manhattan. But a car owner in Montgomery County, on the Maryland-District of Columbia border, can get his flat tire fixed within 15 minutes.

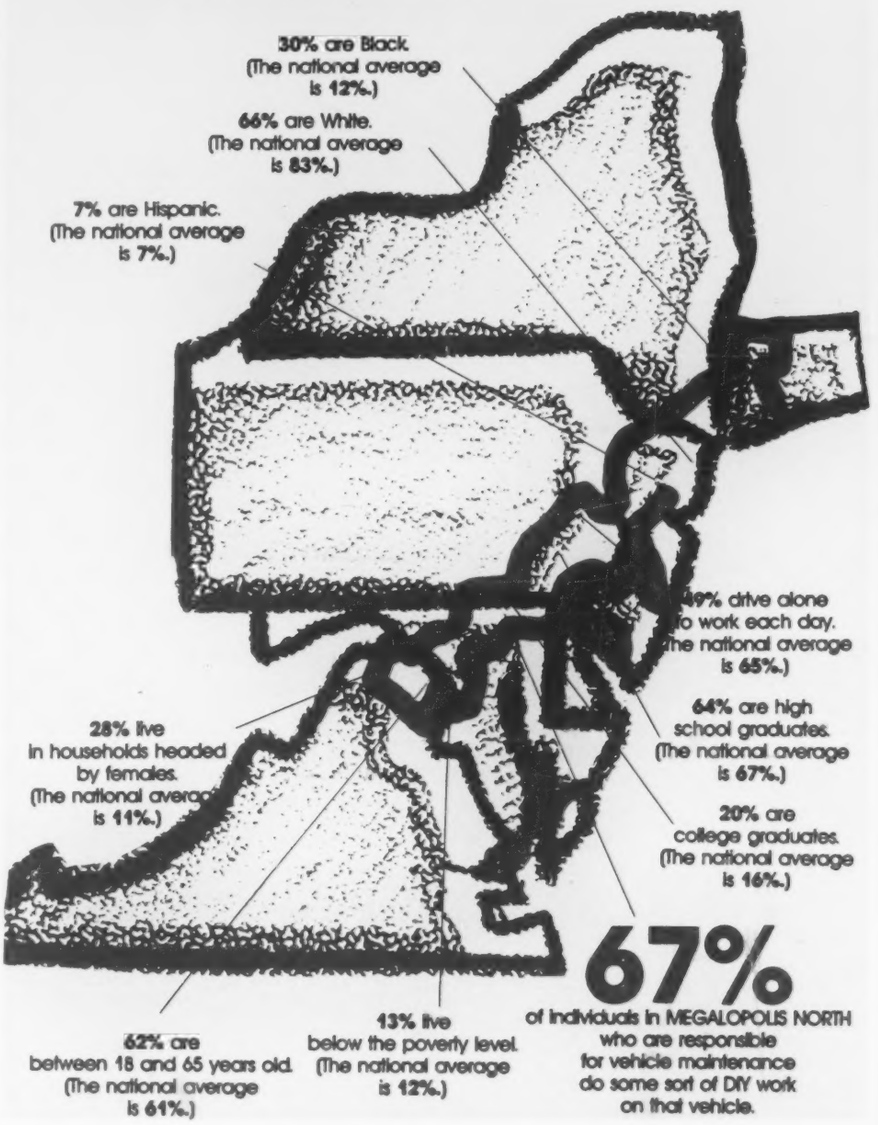
Apartments are more common within the Megalopolis North than single-family homes. This means that DIYers have to do their tasks on public streets or apartment parking lots. They can't leave a job half done in their own garage for days on end while they wait for parts. They have to get it done quickly once they start.

On the other hand, the wide availability of public transportation often means that cars aren't as vital as they are in the open areas of the West. People can often leave a car sit and take a bus or train to work or shop. Indeed, people coming into the cities from the suburbs often prefer to take a train rather than fight traffic and parking problems. As well, insurance rates in urban areas are a great deal higher than they are in rural areas. So, cars are often more of a luxury than a necessity in Megalopolis North.

Look, therefore, for as much or more of a hobby aftermarket in this area than a necessity aftermarket.

Aftermarket retailers often have peculiar problems to their area as well. In the inner city areas, crime can be a major issue for them. In the suburban areas, they often have to pay high rents for mall or strip shopping center locations. In both cases, sales per store have to be higher to offset these problems than sales per store in many other rural areas. ■

Of The People In Megalopolis North:


30% are Black.
(The national average is 12%.)
66% are White.
(The national average is 83%.)
7% are Hispanic.
(The national average is 7%.)
49% drive alone to work each day.
(The national average is 65%.)
64% are high school graduates.
(The national average is 67%.)
20% are college graduates.
(The national average is 16%.)
28% live in households headed by females.
(The national average is 11%.)
67%
of individuals in MEGALOPOLIS NORTH who are responsible for vehicle maintenance do some sort of DIY work on that vehicle.
13% live below the poverty level.
(The national average is 12%.)
62% are between 18 and 65 years old.
(The national average is 61%.)

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In all, 55% of those who live in Megalopolis North and are responsible for taking care of a motor vehicle do some of maintenance work themselves. Another 11% aren't actually responsible for maintaining a vehicle, yet they also do-it-themselves.

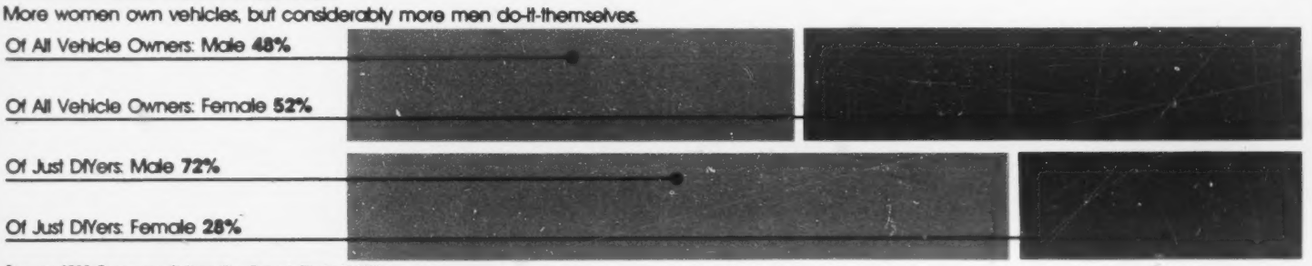
Some 7% of the Megalopolis North DIYers we talked with shop for automotive parts, chemicals, and accessories about once a month. Another 8% shop twice a year, obviously for seasonal maintenance efforts, while 14% shop four times a year. Most shop between two and six times annually.

On the whole, Megalopolis North DIYers have maintained the same automotive DIY work level, or even increased the level of work they do, over the past five years. In all, 71% of them told us this is the case. Over 29% of them expect the amount of automotive DIY work they do to increase in the future, as well.

When asked why they have increased

MEGALOPOLIS NORTH: GENDER

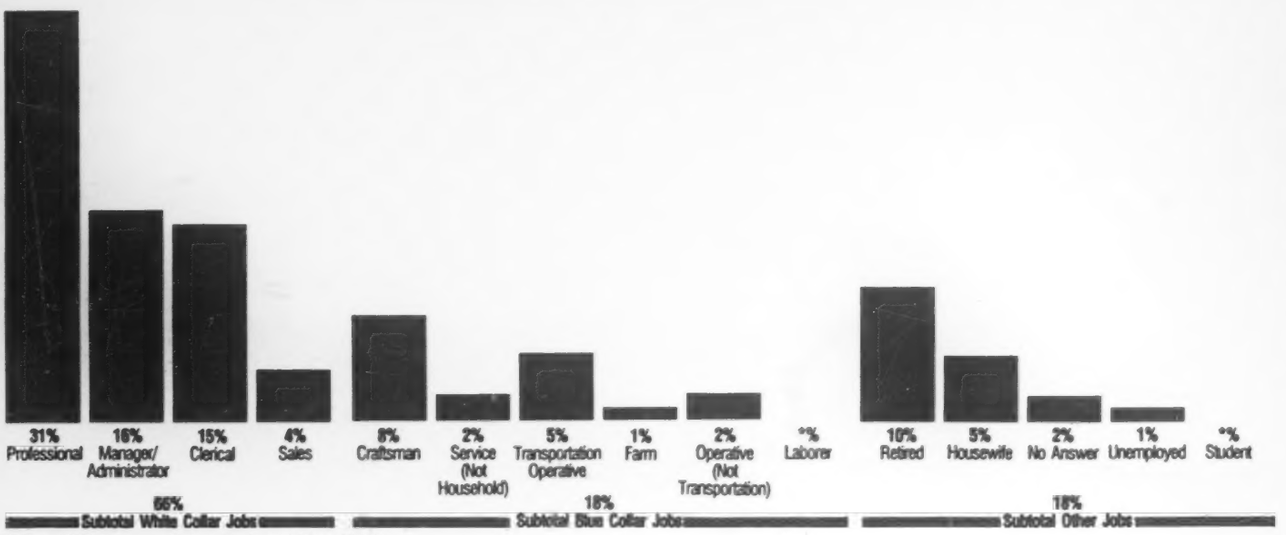
More women own vehicles, but considerably more men do-it-themselves.



Source: 1989 Consumer Automotive Repair Study (CARS)

MEGALOPOLIS NORTH: DIYERS & THEIR PROFESSIONS

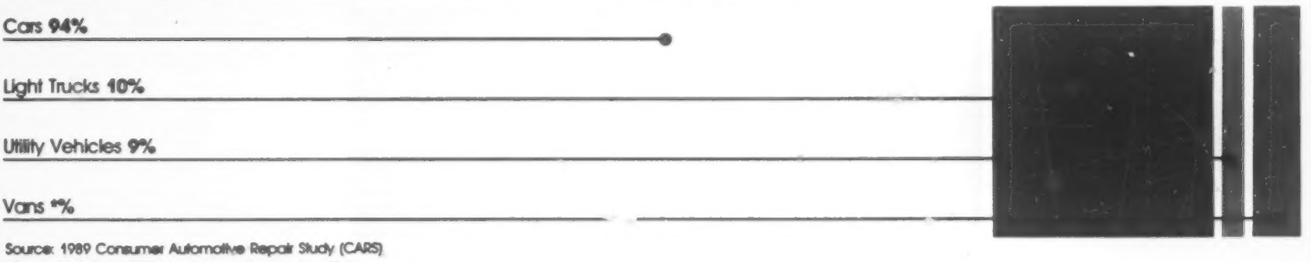
Big city DIYers are white collar workers to a very large degree. Students and laborers, however, rely on public transportation.



Source: 1989 Consumer Automotive Repair Study (CARS)
May not total to 100% due to rounding and multiple answers
* Number too small for accurate count

MEGALOPOLIS NORTH: DIYER VEHICLE TYPES

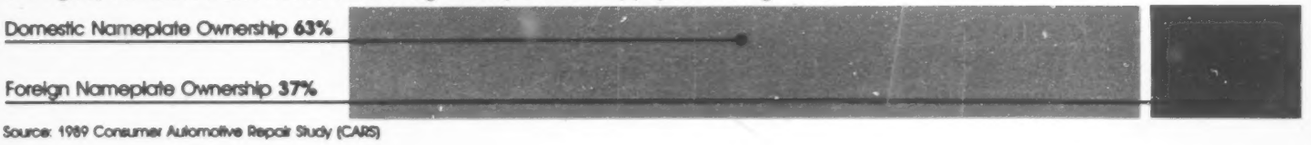
Traditional passenger cars are the most popular vehicles on city streets, even among DIYers.



Source: 1989 Consumer Automotive Repair Study (CARS)
May not total to 100% due to rounding and multiple answers
* Too small a group for accurate reporting.

MEGALOPOLIS NORTH: DIYERS & THE VEHICLES THEY OWN

Of Megalopolis North DIYers, vehicles with a foreign nameplate are very popular among DIYers.



Source: 1989 Consumer Automotive Repair Study (CARS)

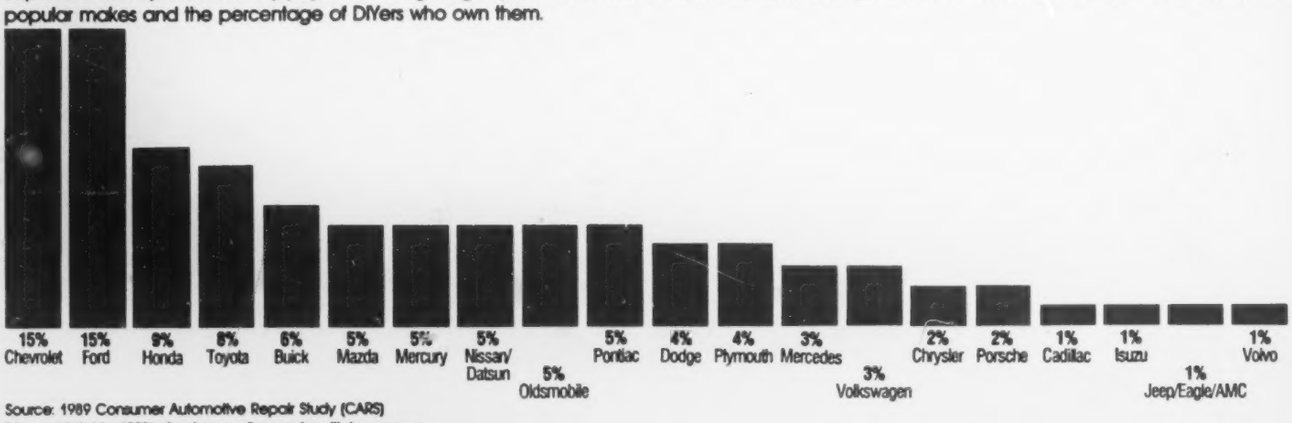
their work, 21% said it was because they had less money to spend on professional repairs. Another 40% cited increased confidence in their DIY skills as the reason for increasing DIY. According to our *Consumer Automotive Repair Study (CARS)*, 34% of all DIYers nationally gave increased confidence as the reason for their increased DIY work.

DIYers increasing their work had other reasons for so doing, too. Of Megalopolis North DIYers, 31% said they increased their DIY level because they enjoy it. Some 21% said they enjoy doing automotive DIY work a lot and 43% enjoy it "somewhat." The rest enjoy it "not too much" (27%) or "not at all" (9%).

What do they think they can do? The answer is not as much as the aftermarket retail industry would like. In all, 51% said they could do only "some" DIY jobs, while only 21% said they could do "almost no" automotive DIY jobs. Otherwise, 23% said they could do "most jobs," while 6% said they could do just about any automotive DIY job. ■

MEGALOPOLIS NORTH: DIYERS & THEIR VEHICLES

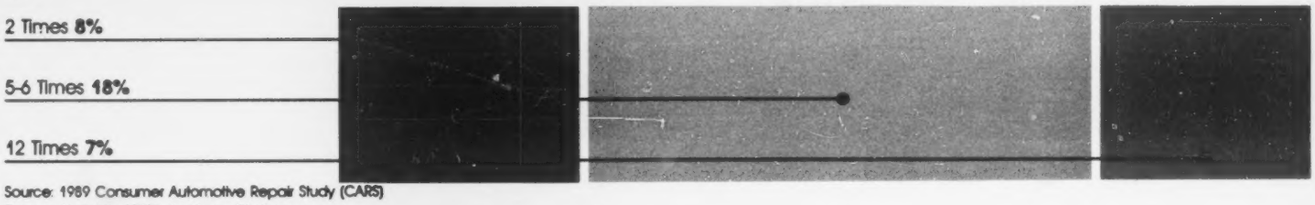
Japanese nameplates are very popular among Megalopolis North DIYers; but a number have expensive German cars, too. Here's a list of the most popular makes and the percentage of DIYers who own them.



Source: 1989 Consumer Automotive Repair Study (CARS)
May not total to 100% due to rounding and multiple answers

MEGALOPOLIS NORTH: SHOPPING FREQUENCIES

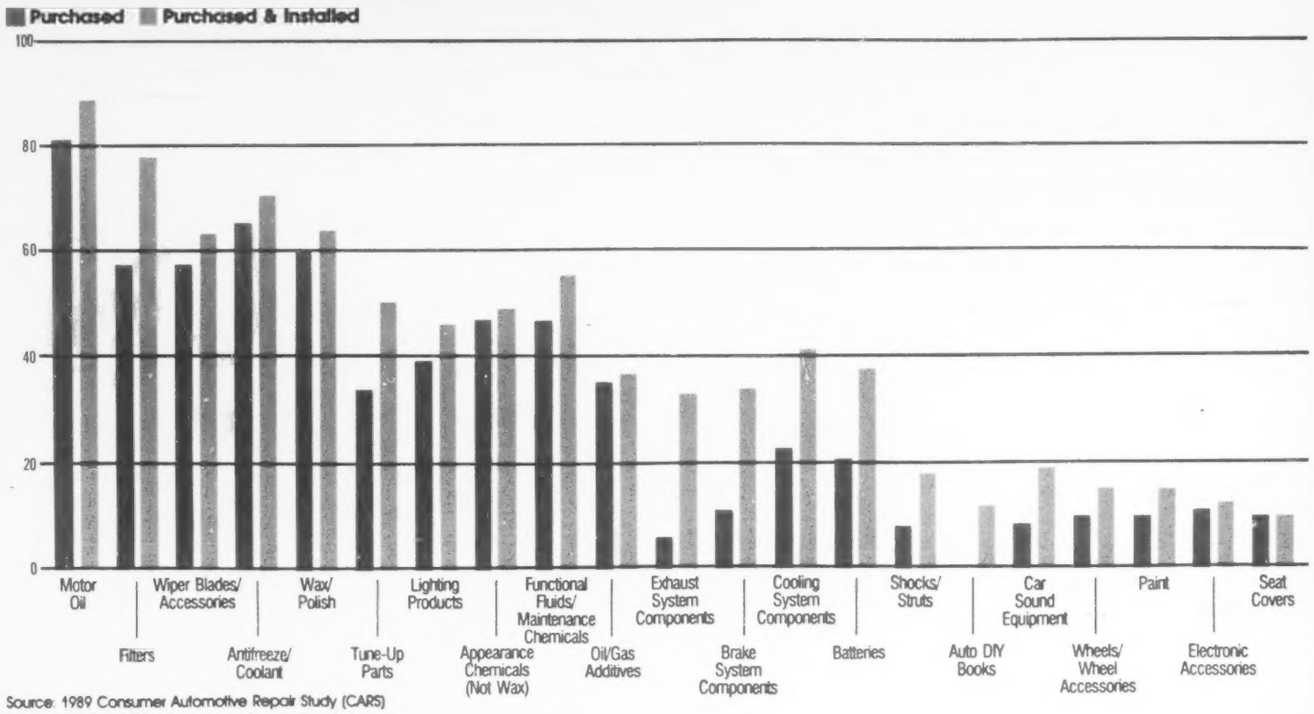
Of Megalopolis North DIYers, almost 20% of them shop for automotive products five or six times a year. Here are the three major shopping frequencies.



Source: 1989 Consumer Automotive Repair Study (CARS)
Does not total to 100% due to omitted responses

MEGALOPOLIS NORTH: DIYERS & AUTOMOTIVE PRODUCTS

The easier the product is to install, the more DIYers do-it-themselves.



Source: 1989 Consumer Automotive Repair Study (CARS)
May not total to 100% due to rounding and multiple answers
* Cell too small for accurate measurement

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